

Internal Revenue Service
District Director

Department of the Treasury

[REDACTED]

Date: JUN 12 1995

[REDACTED]

Person to Contact:

[REDACTED]

Contact Telephone Number:

[REDACTED]

Refer Reply to:

[REDACTED]

Employer Identification
Number:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(7) of the Internal Revenue Code.

The evidence presented disclosed that you were incorporated on [REDACTED] as a [REDACTED] nonprofit corporation.

The purposes for which the organization was formed, according to the Articles of Agreement, are as follows:

To encourage members to exhibit, preserve and enjoy automobiles and trucks of the 1950's era. The club shall promote an environment that is family oriented and provide social meetings and competitive events for members and their vehicles with part of the proceeds of these events being returned to the supporting communities via charitable donations.

The activities of the organization, as stated in the application 1024 and in responses to our letters requesting additional information dated [REDACTED] and [REDACTED] are to meet every other Saturday night from May to September for a cruise night. Members, non-members, and the public can attend.

In [REDACTED], [REDACTED] "summer meets" were open to non-members. A flyer for these "meets" advertised "Free ribbons-First 100 cars", "car troopers", and "\$[REDACTED] Spectator Donation".

Non-member vehicles were charged a \$[REDACTED] admission fee. The activities of the "meets" consisted of an antique auto show, fifties era music, a trophy presentation, and a rolling cruise to a local oceanside amusement park where the vehicles were displayed in a predesignated area.

On cruise nights the organization gathers at a mall's parking lot which is donated to the club at no cost. The organization sells T-shirts to advertise the club's name and the name of the mall. The cost and proceeds from T-shirt sales are shared by the club and the owners of the Mall.

In [REDACTED], the organization received nonmember income totaling \$[REDACTED] which is [REDACTED]% of your gross income \$[REDACTED]. In [REDACTED], the organization received nonmember income totaling \$[REDACTED] which is [REDACTED]% of your gross income \$[REDACTED].

In a statement concerning income for [REDACTED] and [REDACTED] [REDACTED], club treasurer, said "to the best of my knowledge, non member participation has remained basically the same since the club's inception and has accounted for approximately [REDACTED]% - [REDACTED]% of the gross income".

Section 501(c)(7) of the Code provides exemption to clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Public Law 94-568 amended IRC 501 to reflect a twofold change under IRC 501(c)(7). First, it makes it clear that a social club may receive some investment income without losing its exempt status. Second, it permits a higher level of income from nonmember use of club facilities than was previously allowed.

In addition, Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations states A club which engaged in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a).

Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption.

In Revenue Ruling 60-324, 1960-2 C.B. 173, a club was denied exemption as a social club because its dining room and ballroom facilities were in effect available to the general public.

Revenue Ruling 65-63, 1965-1 C.B. 240 held that a nonprofit organization which conducted sports car events for the pleasure and recreation of its members, permitted the general public to attend such events for a fee on a recurring basis and solicited patronage by advertising did not qualify for exemption.

In Revenue Ruling 69-219, 1969-1 C.B. 153, it was held that a social club that regularly allowed the general public to use its golf course did not qualify for exemption.

From the financial information you provided, your nonmember income amounted to ■ percent in ■ and ■ percent in ■. These amounts are in excess of the ■% nonmember public use of the facilities or services permitted by Public Law 94-568.

Like the organizations in the revenue rulings cited above, your activities and programs are available to the public. Further, by advertising for public patronage, you have submitted prima facie evidence indicated in section 501(c)(7)-1(b) of the Regulations that you are engaging in business with the public.

Accordingly, we conclude you are not operated exclusively for the purposes described in section 501(c)(7) of the code. Consequently, you do not qualify for exemption from Federal income tax under section 501(c)(7) of the Code.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

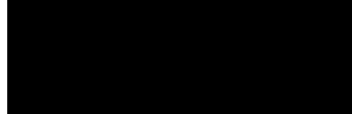
You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completion.

If we do not hear from you within that time, this determination will become final.

Sincerely yours, -

A large black rectangular redaction box covering the signature of the District Director.

District Director

Enclosure: Publication 892